March 28, 2000

Michael M. Reyna, Chairman
and Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Reyna:

We have completed our inspection of the Farm Credit Administration's (FCA or Agency) Telecommunication Costs and Services. Our objectives were to evaluate the cost of telecommunication services provided to FCA through the FCS Building Association (FCSBA); identify alternative providers, if appropriate; test the accuracy and integrity of billings for these services; and review the Agency's oversight of this area.

After the entrance conference for this inspection, the FCSBA contracted with the General Services Administration's *Federal Technology Service (FTS) 2001 Program.* Upon its full implementation, FTS 2001 will reduce the future cost of telecommunication services. Implementation of our recommendation to buy videoconferencing services can significantly reduce travel expenses. We identified approximately $3,500 in billing errors by the provider that were passed on to FCA. FCSBA has credited FCA for this amount. We also found that FCSBA billed FCA for approximately $9,300 in costs that are not consistent with the Memorandum of Understanding (MOU). Some of this amount was applied against the amortized costs of system upgrades.

As a result of this inspection and discussions with management throughout this process, the Agency's arrangement with the FCSBA for telecommunication services will be improved in the following ways:

- FCA will update the MOU with FCSBA to clarify practices that are not consistent with the current MOU.
- FCA will ensure the accuracy and integrity of telecommunication charges to FCA and take an active part in making adjustments when necessary.
- FCA will have the Office of General Counsel opine on whether FCA is eligible for tax-exempt treatment when buying telecommunication services through FCSBA.
- FCA agrees to ask that FCSBA buy videoconferencing services for the Agency.

- FCA's Office of Resources Management agrees to develop and distribute guidance to educate staff about the most economical way to use the various telephone choices available to them.
- FCA will refine its review and control procedures for long-distance telephone calls and supervise their application to ensure compliance with internal policy.

We conducted this review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency. We conducted our fieldwork from April 1999 to October 1999 at FCA headquarters in McLean, Virginia. An entrance conference was held on March 4, 1999. Management and FCSBA were provided a draft of this report on October 15, 1999 and we have included their written responses.

Respectfully,

Eldon W. Stoehr
Inspector General

BACKGROUND

FCA is a nonappropriated agency with regulatory, examination and supervisory responsibilities over the Farm Credit System (FCS or System) banks and associations and assesses System institutions for its administrative costs. The FCS Building Association (FCSBA) was formed by the banks of the System to provide a vehicle through which they could acquire, construct, develop, own, hold, improve, maintain, lease, and dispose of physical facilities and related properties to house the offices of the FCA. The FCA Board members serve as the board for FCSBA and are authorized to act as the agent of the banks.

FCA headquarters and the McLean field office occupy office space in the building owned by FCSBA. Four other field offices occupy office space leased by FCSBA. The Agency pays no rent for this office space. FCSBA also provides telecommunication equipment to FCA under a reimbursable operating lease that is renewable yearly. FCA's telecommunication expenses were $280,815 and $295,989 for FY 1998 and FY 1997, respectively.

The inspection was prompted in part by the well-publicized reduction in telecommunication costs available to Federal agencies through the FTS 2001 contract negotiated by the General Services Administration (GSA) and announced in January 1999.

OBJECTIVES, SCOPE, and METHODOLGY

The objectives of this inspection were to evaluate the cost of telecommunication services provided to FCA through the FCSBA; identify alternative providers, if appropriate; test the accuracy and integrity of FCSBA billings for these services; and review the Agency's monitoring activities over this area. We reviewed Agency billings for three months to identify: 1) how FCA staff used the telecommunications available to them; 2) how established controls were applied; and 3) any exceptions to the appropriate, authorized, efficient and effective use of telecommunication services. We also surveyed other Federal financial regulatory agencies about their use of videoconferencing and the GSA's Federal Technology Service 2000/2001. Finally, we compared the contract negotiated by FCSBA and FCA to the telecommunications contract negotiated by GSA for Federal agencies.

FINDINGS, CONCLUSIONS, and AGREED UPON ACTIONS

Substantial savings will be gained by using GSA's FTS 2001.

During the entrance conference for this evaluation, we noted that FCSBA had not asked for proposals from the FTS 2000 program (FTS 2001 predecessor) when negotiating the

then-existing contract and asked whether they were considering the new FTS 2001 program for FCA. FCSBA stated that, historically, there were no significant price advantages to the FTS 2000 program over other providers of telecommunication services and that FCA management preferred other providers. Nevertheless, FCSBA stated GSA had been doing some "good things over there" and they would be keeping them in mind for future contracts. After the entrance conference, FCSBA contacted GSA about getting a bid for services from FTS 2001 and have told us that, on October 15, 1999, they committed to buy telecommunications services through GSA's FTS 2001. The favorable pricing available through FTS 2001 should provide substantial savings to the Agency as well as bolster the FCSBA's ability to generate income from other non-Agency tenants for whom the FCSBA provides telecommunication services.

The existing Memorandum of Understanding (MOU) between the Agency and FCSBA does not authorize some of the telecommunication costs billed to FCA by FCSBA.

The MOU between FCA and FCSBA for telecommunication services provides, in essence, that FCSBA's billings will "pass through" only actual costs unless FCA specifically allows otherwise. Specifically, Section V4(c) states that the FCSBA "will not charge the FCA and the FCA will not pay FCSBA a fee or profit for FCSBA's performing under the MOU." Furthermore, Section V4(d) of the MOU states that "The FCSBA will submit to the FCA's Fiscal Resources Division an invoice, on a monthly basis, that describes and itemizes the actual costs allocated and/or prorated to the FCA for the monthly billing period. The invoice will include any reasonable information and documentation deemed necessary by FCA to substantiate the costs allocated and/or prorated to the FCA and to authorize payment by the FCA." The following instances do not comply with the MOU. The estimated amounts shown were supplied by FCSBA and are conservative, based on our own analysis.

- Local calls were charged to FCA at 10 cents per call rather than the 7 cents per call charged by the provider (a 42 percent premium). This premium amounted to an estimated $2,600/year in additional charges to the Agency. FCSBA stated that they applied this excess against the amortized costs associated with the change in the provider of local service. However, this amortized amount was not identified on the invoice to the Agency as is prescribed by the MOU. This method of payment is not consistent with the treatment of similar fixed costs associated with switching providers.

- Local calls were charged to FCA for each dialing attempt even though the provider billed FCSBA only when a successful connection was made. This premium amounted to an estimated $700/year in additional billings to the Agency. FCSBA stated that this is a long-standing practice that was common knowledge to the Agency even though the MOU calls for pass through billing of costs. We were unable to identify FCA personnel who were familiar with this practice.

- Long-distance calls were billed to FCA at 8 cents per minute rather than the 6.5 cents per minute billed by the provider (a 23 percent premium). This premium amounted to an estimated $3,600 in additional charges to the Agency annually. FCSBA stated that they applied this excess against the amortized costs associated with the change in the provider of long-distance service. However, this amortized amount was not identified as such on FCSBA's invoice to the Agency as prescribed in the MOU. This method of payment is not consistent with the treatment of similar fixed costs associated with switching providers.

- Long-distance calls billed to FCA were "rounded up" to the next minute rather than the "rounding up" to next 1/10th of minute billed to FCSBA by the service provider. This practice amounted to an estimated $2,400 in additional charges to the Agency annually. FCSBA stated that this is a long-standing practice that was common knowledge to the Agency even though the MOU calls for pass through billing of costs. We were unable to identify any FCA personnel who were familiar with this practice.

Agreed Upon Action

1. *FCA will update the MOU to clarify the basis for telecommunications billings and provide sufficient oversight to assure that future billings are consistent with the MOU.*

FCSBA's internal call tracking software does not generate reliable billings to the FCA.

Various providers bill FCSBA for telecommunication services used by the FCSBA, FCA and some other tenants of the McLean Headquarters Building. FCSBA then bills the users for their share of these costs, some of which are direct and some of which are allocations. Appendix A shows that $3,445.08 (total of footnote #1) of the March 1999 telecommunications bill to the Agency was allocated costs calculated by FCSBA's internal call tracking software. The billings to FCA that result from this process are not reliable because they are difficult to understand, some charges are inconsistent with the MOU (as described in the previous section), and include errors and omissions.

Billings are difficult to understand because of the way the fixed costs of equipment upgrades are amortized. Rather than amortizing these fixed costs uniformly over a specified period of time, FCSBA has "rounded up" actual rates for some costs (see above section) and applied this overage against the retirement of the fixed cost. It is difficult to track the variable results of such rounding amounts and its credit against the original cost. Also, the problems we have identified in the allocation process further complicate this area.

FCA has not been requiring documentation to explain unusual components of billings from FCSBA. The following are more examples of items that should have been

investigated. Individually, these examples may seem insignificant; however, collectively they signal that improvement is necessary.

We found the following items in our review of three month's calling data generated by this system:

- Individual long-distance calls lasting more than 550 minutes (over 9 hours) were billed to FCA. We identified three such calls totaling over $130 in our review of three months of data. The service provider had not billed FCSBA for these charges but they were generated by FCSBA's internal call tracking software. FCSBA initially stated that it had no knowledge of why these charges were occurring in its. Subsequently, FCSBA ran a software test to identify all calls in 1999 of this nature. That test identified three such calls; however, only one of the calls documented by us was noted in the FCSBA test.

- Part of the allocation of indirect telecommunication costs to FCA is based on the total number of handsets installed by FCSBA, including those installed for other tenants. As of August 25, 1999, FCA had 328 individuals on staff (including seasonal help) but was being billed by FCSBA for the use and maintenance of 425 handsets**.** Currently, the Agency does not have a process to ensure that all handsets currently installed are necessary. To the extent that FCA has more handsets assigned than in actual use, the allocation results in a higher cost to FCA than necessary.

- Some local and long-distance calls were not billed to FCA at all. This deficiency amounted to an estimated $1,500/year in non-charges to the Agency.

We also identified errors in billing data for February 1999 - April 1999 unrelated to the FCSBA internal call tracking software. These included:

- FCA was billed over $3,250 from September of 1998 to June of 1999 for toll calls by the Denver field office that were actually local calls.

- Charges for the Agency's 800 numbers for its Remote Access System (RAS) were overcharged by $309.50

- FCA was overcharged $101.98 in March 1999 for calling card use.

- The Agency was billed for calling card rates in excess of the contracted 17 cents per minute that resulted in $156.31 in overcharges.

- Incorrect rates were assessed on some Agency 800 numbers resulting in $82.14 of excess charges.

After we notified FCSBA of these errors during our review, FCSBA credited the FCA for all the overcharges except for the $309.50 that FCSBA contends is a valid charge.

FCSBA's billings to FCA "passed through" various state and local taxes, surcharges, and user charges. As an example, one month's invoice for 800 numbers to access the Agency's computer network included $241 in taxes on the $4,658 bill. Since FCSBA is FCA's agent for buying telecommunication services, the Agency's tax-exempt status may be applicable to some of these telecommunication service costs.

Agreed Upon Actions

2. *FCA will set up a more effective process for monitoring the accuracy and integrity of telecommunication charges and for making adjustments when necessary.*

3. *FCA will have the Office of General Counsel opine on whether the Agency is eligible for tax-exempt treatment when buying telecommunication services through the FCSBA.*

Videoconferencing should be included in the range of services provided to FCA.

Videoconferencing offers a significant opportunity to reduce staff time and travel expenses for various communications among Agency staff and between Agency staff and external parties. The Office of Examination (OE) could particularly benefit from this service because of the geographic dispersion of its own staff and the System institutions OE meets with regularly. OE expects to significantly reduce FY 2000 travel through the use of videoconferencing. Less travel would also have a positive effect on examiner morale. Additionally, some internal Agency meetings may be suited for using videoconferencing.

The Agency has used videoconferencing occasionally but representatives from the Agency's Information Resources Division (IRD) expressed concerns during our entrance conference that the technology was not of sufficient quality and historically too expensive. However, during the inspection, IRD added the costs for installing videoconferencing capabilities for all field offices in the FY 2000 budget.

Other Federal financial regulators (the Federal Reserve Board and the Federal Deposit Insurance Corporation) have in-house videoconferencing services that they use regularly and expressed satisfaction with them. The Agency's limited use has also produced satisfactory results. The FTS 2001 program contracted for by FCSBA in October 1999 offers videoconferencing services in various formats.

Agreed Upon Action

4. *FCA will ask FCSBA to buy videoconferencing services for the Agency.*

There are opportunities to reduce Agency telecommunication costs by educating FCA staff about the most cost-efficient uses of available options.

Our review of telecommunication billings suggests that Agency staff do not always use the most cost-efficient options when choosing from existing telecommunication services. Since it is probable that staff are unaware of the cost implications of the various options, it is likely that FCA could reduce its telecommunication costs if staff followed these guidelines:

- Use local Agency numbers rather than 800 numbers whenever possible. (Local calls are free but 800 numbers carry added charges based on time usage.)
- In-office or local phone number dial-in network accesses are the most cost-effective ways to access, download, or upload databases on the FCA network.
- It is less expensive (32%) for field offices to call McLean on an 800 number than to dial McLean direct.
- It is less expensive for McLean to dial field offices direct than to dial their 800 numbers.
- Use the Agency's 800 numbers rather than calling cards. This results in a minimum saving of 62% for calls to McLean and 44% for calls to the field offices.
- Use cellular phones with unlimited calling plans rather than calling cards or the Agency's 800 numbers.

Agreed Upon Action

5. *FCA's Office of Resources Management will develop and disseminate guidance to educate staff about the most economical way to use the various telephone choices available to them.*

The Agency has not followed the review and control procedures established in FCA policies and procedures (PPMs) 700 and 707.

FCA PPMs 700 and 707 establish the Agency's review and control procedures and require certification that long-distance telephone calls were made for official business purposes. While these procedures are adequate, they are not followed. Further, these PPMs exclude 800 numbers, even though most 800 number calls are long-distance and therefore should be certified as official business. Finally, the statistical sampling method developed for use with the certification process does not produce a valid random statistical sampling of the Agency's long-distance phone calls.

Agreed Upon Action

6. *FCA will refine its review and control procedures for long-distance telephone calls and supervise the application of them to ensure compliance with internal policy.*